



The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY

The most significant trend during August, from the standpoint of the real estate operator, has been the further shrinkage in the supply of mortgage funds. Tight money has been getting tighter, and interest rates have been rising. The Federal Reserve Board, in an attempt to stop the inflationary trends which have again been evident, has continued its pressure on the banks to limit their indiscriminate lending. The 91-day Treasury bill rate has risen again until at 2.82 it is now the highest it has been in 23 years. The liberalization of FHA and VA down payment requirements will not be nearly so effective as it would be were there a plentiful supply of money available at the FHA and VA interest terms. The liberalization of the policies of the Federal National Mortgage Association will undoubtedly help to some extent in the amelioration of the mortgage situation in extreme cases, as Fanny Mae will undoubtedly acquire many mortgages in the next few months.

Most of the indexes we chart on the real estate segment of our economy are showing the effect of tight money. Real estate activity is running 8.2% above our long-term computed normal, but the general trend in 1956 has been downward, and we will be rather surprised if the fall and winter will bring much recovery from the present level in the number of voluntary sales of real estate.

Real estate activity has been quite spotty and has been much better in some sections of the United States than in others. The West Coast, with the exception of Portland, Oregon, and San Diego, California, did not do too well in relationship to a year ago. The Southwest, the Southeast, and the Mountain States were down. *

MORTGAGE ACTIVITY

Real estate mortgage activity has shown a steady decline since January 1955, when it reached the highest point that had been reached since 1946. The last 2 months were the lowest which have been reached since 1952, and we think it probable that there will be no great recovery during the remainder of the year. Mortgage activity is also spotty, and as a general thing

*See August 1956 Real Estate Analyst for charts and tables on regions and cities.

the communities in which real estate activity has been high are the ones in which mortgage activity has been good, or probably we should revise this and say that the areas in which mortgages were being made more frequently were the areas in which voluntary transfers were higher than they were in others. Many a deal in the recent past has failed to materialize because of financing difficulties.

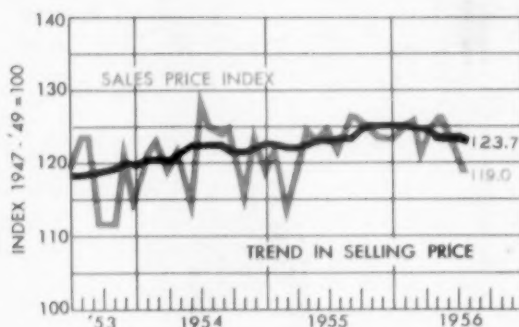
REAL ESTATE SALES

The chart on real estate sales at the bottom of this page shows that there was a slight decline in our trend line in comparison with both the preceding month and the corresponding month of a year ago. The unadjusted figure on our sales price index dropped to 119, which brings it to the lowest point in about 16 months. The adjusted trend line shows a continuation of the slight drops which have been occurring during the period from last October.

We find that this drop in selling prices applied to practically all types of single-family residences. However, the newer, more modern type of building, particularly of the one-story variety, shows the smallest drop in price, with the largest drop occurring in the older, more obsolete two-story buildings.

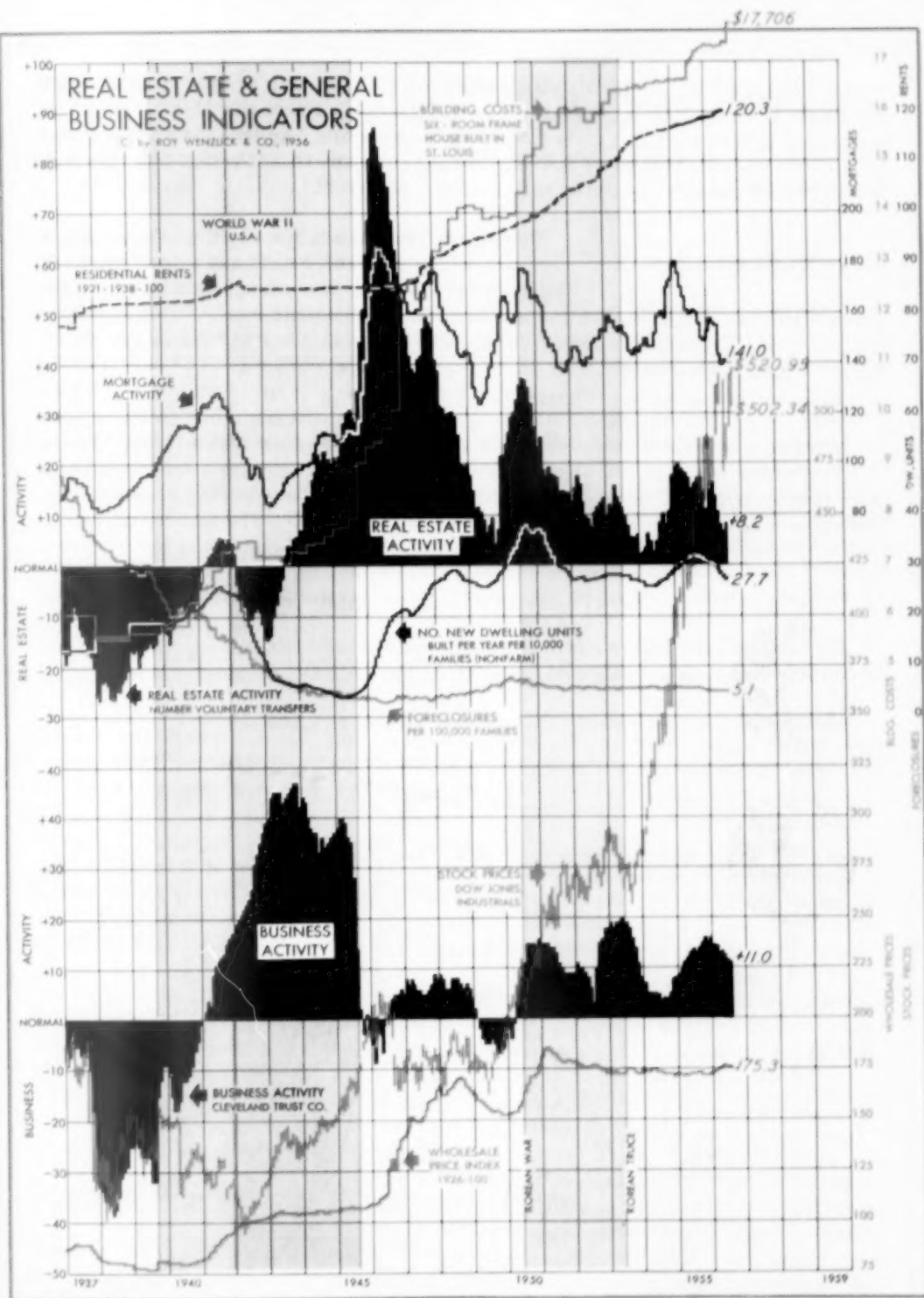


REAL ESTATE SALES PRICE COMPARISONS



Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period
1947-49	100.0	\$12,000	Oct. '48	104.5	\$12,540
1913	40.1	4,812	Oct. '53	119.7	14,360
1918	34.1	4,092	Oct. '54	122.3	14,680
Mar. '29	73.9	8,868	Jan. '55	122.9	14,750
May '32	34.8	4,176	May '55	123.5	14,820
Apr. '34	44.8	5,376	Oct. '55	125.1	15,010
July '37	40.1	4,812	Jan. '56	125.3	15,035
Apr. '38	42.8	5,136	Mar. '56	124.6	14,950
Mar. '41	40.1	4,812	May '56	123.9	14,870
			June '56	123.9	14,870
			July '56	123.7*	14,845*

*Preliminary.



RESIDENTIAL RENTS

Residential rents have continued their slow climb, inching up during the past 2 years at a slower rate than they climbed during the last 4 or 5 years of rent control. We think it highly probable that this line will continue to creep higher.

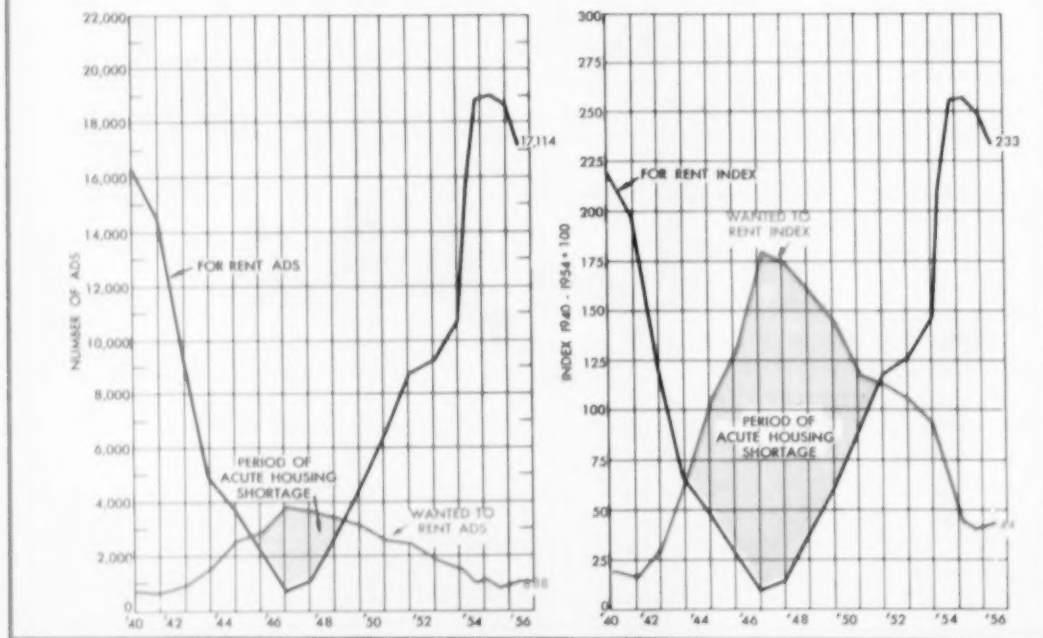
RESIDENTIAL VACANCY

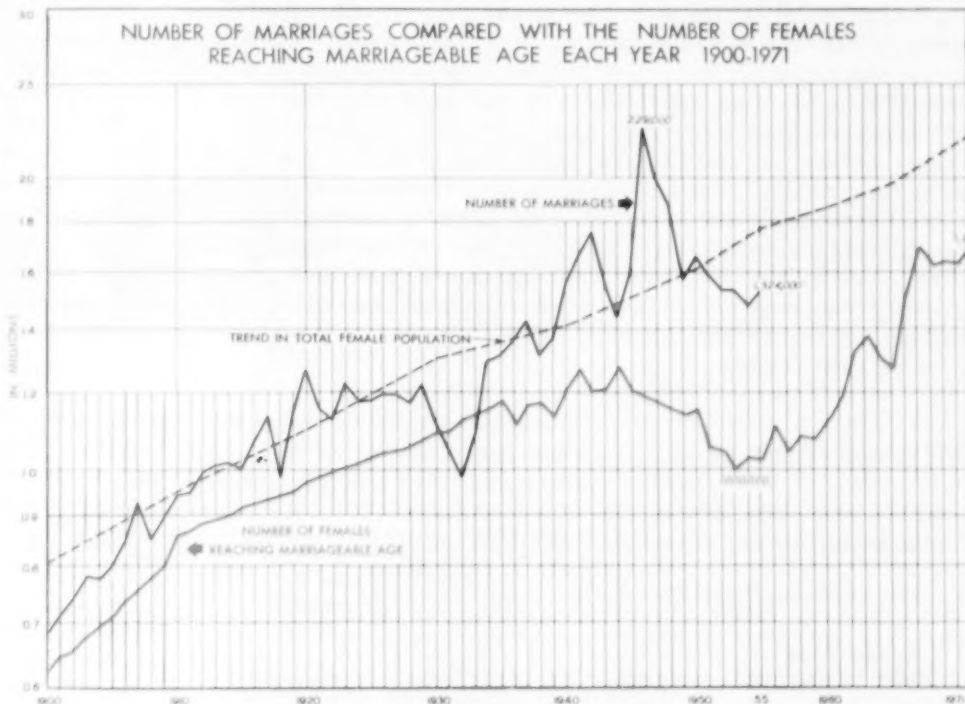
The charts below show the results of our counts of the number of advertisements showing places for rent in 38 metropolitan areas of the United States. The blue line on the chart shows the number of "For rent" ads, year by year, since 1940. The red line shows the number of "Wanted to rent" ads over the same period.

It should be kept in mind in studying these charts that the metropolitan areas covered have approximately 60% more population than they had in 1940. From that standpoint the number of advertisements running today is not excessive in comparison with the number running in 1940, before the housing shortage developed. It will be noticed that the number of "For rent" ads has been dropping during the past year, and this has been confirmed by an increase in the "Wanted to rent" ads. This would seem to indicate that the housing shortage, after shrinking for quite a number of years, is apparently becoming slightly more acute again.

The chart on the left is based on the number of advertisements; the chart on the right is based on the same computations, but uses the period 1940-54 as 100.

CHANGES IN SUPPLY OF AND DEMAND FOR RENTAL HOUSING





MARRIAGE RATE

The number of marriages in the United States increased slightly last year, which is the first increase we have had in 5 years and, with only one exception, the first increase in 8 years. If business conditions continue good, the number of marriages will increase still further, as we have now passed the bottom of the number of persons reaching marriageable age each year. The next big marriage boom, however, will not occur until after 1965 unless a war should break out in the meantime. Should economic conditions deteriorate, the number of marriages will drop, as we are still in too nearly a balanced position on the number of persons reaching marriageable age.

As pointed out in the "As I See It" Bulletin for this month, an increase in the number of marriages will probably initially increase demand in the rental market more rapidly than it will in the sales market, as the average age of buyers of homes is around 35 years at the present time. A large percentage of the marriages taking place are at considerably younger ages, with the probability that the newly married couples will live in rented units for a while.

NEW CONSTRUCTION

New construction in the private residential field has continued to drop until, at the present time, on an annual basis, we are building 1,070,000 dwelling units. This is a decline from the 1,458,000 units we were building in December 1954, which was the peak of the last few years. Our forecast at the

beginning of the year was that we would drop from the approximately 1,300,000 units of last year to 1,200,000 this year. It looks very much as if our forecast, which was below the Housing and Home Finance forecast at the time it was made, will still be too high, as there is no indication that the drop in the annual rate has stopped. The rather tight money situation, with the increase in construction costs, and the fact that the housing shortage is no longer so acute as it was, seem to be the principal causes of the decline. The situation is quite spotty, and as a rule, overbuilding has occurred in the greatest quantity in rapidly growing communities which were building at a high rate. From the long-pull viewpoint, however, overbuilding in these communities is not as serious as it would be in slower growing communities. A drop in the volume of new building for a short time will balance off supply and demand, and should absorb the surplus which has been created temporarily.

BUILDING COSTS

The tables on the opposite page show construction costs on four of our typical buildings. In each case our construction cost has advanced over the preceding month, and is now at a new high. The cost of our six-room frame house during July advanced by \$387, which is the largest increase in any 1 (cont. on page 388)



INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
August 1956



SIX-ROOM BRICK HOUSE (FRAME INTERIOR)*

Content: 23,100 cubic feet
1,520 square feet

Cost 1939: \$ 6,400

(27.7¢ per cubic foot; \$ 4.21 per square foot)

Cost today: \$18,059

(78.2¢ per cubic foot; \$11.88 per square foot)

INCREASE OVER 1939 = 182.2%



FIVE-ROOM BRICK VENEER HOUSE*

Content: 24,910 cubic feet
1,165 square feet

Cost 1939: \$ 5,440

(21.8¢ per cubic foot; \$ 4.67 per square foot)

Cost today: \$15,946

(64.0¢ per cubic foot; \$13.69 per square foot)

INCREASE OVER 1939 = 193.1%



SIX-ROOM FRAME HOUSE*

Content: 24,288 cubic feet
1,650 square feet

Cost 1939: \$ 5,871

(23.4¢ per cubic foot; \$ 3.44 per square foot)

Cost today: \$17,706

(72.9¢ per cubic foot; \$10.73 per square foot)

INCREASE OVER 1939 = 212.2%



6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT

Content: 12,119 cubic feet
992 square feet

Cost 1939: \$3,392

(28.0¢ per cubic foot; \$3.42 per square foot)

Cost today: \$10,015

(82.6¢ per cubic foot; \$10.09 per square foot)

INCREASE OVER 1939 = 195.2%

*Costs include full basement.

(cont. from page 386)

month in more than 8 years. Most of the increases are due to changes in labor rates which became effective on July 1. A few of the building materials are showing some weakness, due to the drop in building. Lumber, which was quite tight in the early part of the year, is now in surplus supply, with some price cutting at the mills at the present time. Copper, which a year ago was quite high, has been progressively weakening as supplies exceed demand. Plywood prices are showing some softening, due to a tremendous increase in capacity which is temporarily oversupplying the market. The demand for plywood, however, has been increasing so steadily over a period of years that the excess capacity will prove temporary. We anticipate some difficulty in some areas in the period ahead in the supply of steel and cement. The tremendous road-building programs during the next few years will tax our present producing capacity on cement during the period in which new capacity is brought into existence. Since cement is produced in many parts of the United States, however, shortages are apt to be localized in those areas where demand skyrockets without a corresponding immediate increase in capacity.